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REPORT OF THE COMMITTEE ON COORDINATION IN TAXATION

Your Committee on Coördination in Taxation presents a preliminary and tentative report only, because of the facts that war pressure, in this as in other fields, prevents other than academic consideration, and that the committee has been able to act only through correspondence. But the further facts that our taxation is in a state of flux, that the needs of the national government have taken it into fields usually reserved for state taxation, and that both taxation and coördination demand and receive continuing and increasing attention, make it seem desirable to present a basis for further discussion.

The committee was appointed by the executive board late in 1916, as the result of a motion of R. R. Bowker, referred to it from the Washington conference, and consisted of Professor T. S. Adams of Yale University, as chairman, Professor H. L. Lutz of the Department of Economics of Oberlin College, Professor H. C. Adams of the Department of Finance of the University of Michigan, Honorable Ogden L. Mills, lawyer and state senator, chairman of the New York Legislative Committee on Taxation, and R. R. Bowker, business executive and author of various economic writings. Professor T. S. Adams declined to serve, because of ill health and pressure upon his time, but was induced to remain as a member of the committee. R. R. Bowker was appointed in his place, and has served as acting chairman. Mr. Mills departed for France in army service early in the year, and has left a vacancy in the committee.

The committee, in endeavoring to practice as well as to preach co-ordination, communicated with the chairmen of the several committees of the National Tax Association, working in cognate fields, i.e., Committee on a Model System of State Taxation, of which Professor Charles J. Bullock of Harvard University is chairman, Committee on Public Expenditures, of which Herbert J. Hagerman, president of the 'Taxpayers' Association of New Mexico is chairman, and Committee on Inheritance Tax as Related Between State and Federal Revenue Systems, of which Nils P. Haugen of the Wisconsin Tax Commission is chairman. Each of these committees reported, with the exception of the Committee on Public Expenditures, that it had not prepared a report or reached conclusions. A copy of each communication sent to the several members of your committee was sent simultaneously to the N. T. A. committees indicated above, and most of the chairmen have assisted your committee through correspondence.

Important recent material in connection with this subject is to be found in the federal census publications (1914-15) on "Wealth, Debt and Taxation" and cognate subjects, the New York State report (1916) of the Joint Legislative Committee on Taxation, of which Ogden L. Mills was chairman, and the report (1916) of the Mayor's Committee on Taxation in New York City, of which E. R. A. Seligman was chairman of the executive committee. These publications make the work of your committee the more proper and timely.

Segregation of taxes and coördination in taxation are desirable as means toward the end of obtaining the needed revenue for our federal, state, and local governments in the simplest, most efficient, and least objectionable way; but any plans must stand the test of fitting best into our political and economic order. The inequities resulting from the use of local assessments for state taxation have been partly met by the device of a state tax commission, or other central authority, to supervise and equalize such assessments, but it is evident that in face of the enormous and complicated burdens of taxation now in view, the widest and most careful foresight is necessary toward a co-ordinated system for the future, in which the comprehensive budget and a centralized authority in appropriations will be a part, but a part only.

The *precis* following, originally a basis for discussion by the committee, has been reshaped and modified in accordance with, as far as practicable, the opinions of its several members. It is, of course, impossible, in our present stage of taxation, to present any entirely logical schedule, in view of the confusion existing between subjects, methods, means, or purposes of taxation, e.g., taxes on imports or through inheritances, or by use of stamps, or for roads.

National, necessarily—

Import taxes, i.e., customs duties, necessarily national because forbidden by United States Constitution to states.

Export taxes: not used in United States, and forbidden by United States Constitution.

National, preferably—

Excise taxes on manufacture (or distribution, or consumption) of liquors, tobacco, and other luxuries or other commodities. Preferably national, especially on manufacture, lest industries should be driven or induced from one state to another by higher or lower taxation.

Income taxes—usually with exemption of minimum and with differential and graded tax rates. Preferably national, for like reason. If used also by states, levy should be on the same scheme as national basis, to prevent complications.

Stamps—Stamp taxes are chiefly objectionable because of the per-

sonal time and labor required in providing and handling them disproportionate to the revenue collected through them. Stamp taxes on receipts, express service, telegrams, and other particularist taxes, as on railroad and theatre tickets, as well as like taxes collected from telephone companies, are as a matter of practice transferred by extra charges to the consumer, and constitute an additional burden, not on the operating companies, but to the user. When levied, they should be national, as uniformity is an important feature.

Profits taxes on corporations or individuals, have not the disadvantage of sales taxes, because they do not add to price. Preferably national to insure even justice among the states, but may properly be divided with the states under a mutual collecting system. The difficulty in taxing excess profits is that of obtaining a fair basis of investment of valuation, but this is perhaps less difficult than obtaining true returns for many other forms of taxation.

State, necessarily—

Realty taxes—On land and on improvements, separately or together are necessarily state, because theoretically the sovereign state owns the land, and because federal direct tax could not be levied, except in proportion to population, without further amendment of the Constitution. Usually shared with local divisions of the state, levied and collected by one agency for both.

State, questionably—

Inheritance taxes preferably state, if income taxes are left to the national government. Evidence and opinions differ as to whether owners of considerable fortunes, except in occasional instances, change state residence to avoid high inheritance taxes, in which case national levy and collection would have advantages, as in respect to income taxes.

Road taxes, for construction and maintenance of roads, formerly levied on abutters by "day's work," necessarily changed in relation by automobile use delocalizing them. Levied on users, through automobile licenses, the tax falls less on local people than on automobile owners. This is properly not a license tax, but a use tax, and should be levied for the benefit of the state or locality, in the proportion in which each constructs or maintains roads.

State, preferably—

Corporation taxes, as such, belong theoretically to the body creating the corporation, usually the state. Levied on organization or stock issues, or dividends, or earnings, they have become the means by which one state endeavors to obtain a larger proportion of corporate organizations incorporated under its laws, which has led to large abuses. Corporation taxes may, therefore, be levied more wisely as income or profit taxes, uniform among the states.

Local, preferably—

Licenses for the practice of callings, or for like purposes, are properly a source of local revenue, since the calling is attracted to a par-

ticular place by local advantages. They have the added advantage, e.g., in New York City, that suburban residents in other states or counties are thus called upon to contribute their quota of taxation to the community in which they earn.

Objectionable taxes—

Sales taxes are peculiarly objectionable because, repeated at each stage of distribution, they fall ultimately, in increasing ratio with each transfer, on the ultimate consumer, increasing prices in geometrical ratio.

Personal property taxes, though general in use, have long been condemned by economists as at present levied, though favored by some under improved methods of classification, as practiced in Minnesota. Differing among the states, they have the immediate effect of driving taxpayers from one state to another, or inducing changes to states offering lower rates. They are also productive of falsity and trickery, and should in general give place to better taxing methods.

Poll taxes, or the tax per head, are usually levied upon voters, sometimes with the denial of the right to vote unless the poll tax is paid. The tax thus becomes a method of buying votes, and has been abandoned in most states as unproductive of revenue and ill-advised in practice, though theoretically justifiable.

This schedule, it should be noted, covers in large generalization taxes in common use or under discussion, or experiment, without attempting to discuss in any wise the subsidiary questions involved, as the "single tax," the desirability of few rather than multiplied subjects and methods of taxation, the incidence or shifting of the several taxes, or the relative value or character of taxes, except as clearly objectionable taxes are indicated as such. Whether or to what extent it may be desirable to consider these mooted questions in connection with the present investigation, has not been determined by the committee, but it is evident that one important topic is essential in the discussion of co-ordination—the possible allotment of certain taxes, as income and inheritance taxes, between the federal and state governments, as the proceeds of land taxes are now allotted between state and local governments. Certain dangers of such allotment, which would have been serious previous to the Civil War, may now be considered as passed; but if there is to be such allotment, more careful coördination between federal and state authorities will be a *sine qua non*, with assessments rolls in common or open each to the other, and whether federal or state machinery shall be used, must also have careful consideration. Cognate with this subject is the suggestion already in practice in Connecticut with respect to income taxation, that a state tax should be a surtax on the basis of the federal taxes; while it goes without saying that the closest practical approach to uniformity of tax legislation

among the several states is necessary for proper equalization of taxation. This preliminary report is presented as merely an outline survey of the field of discussion, and makes little attempt at solutions or recommendations.

The committee will be glad to receive comment, criticism, and suggestion from any member of the Association; and it asks that it may be continued with a view to further report, and that it may have power to fill vacancies within its membership, unless filled by the President of the Association.¹

Respectfully submitted.

R. R. BOWKER, *Acting Chairman*.

¹ Professor Lutz concurs in this report; Professor T. S. Adams notes the exception that he considers inheritance as well as income taxes should be primarily federal; Prof. H. C. Adams non-concurs, emphasizing "the market jurisdiction of industries" in relation to taxation.